MARXIST STUDY COURSES

Course

POLITICAL ECONOMY

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The Distribution of Surplus Value—I.

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Lesson 6

Marxist Study Courses *Course 1.*

Political Economy

LESSON VI

THE DISTRIBUTION OF SURPLUS VALUE

(Part I)

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Section Four: THE DISTRIBUTION OF SURPLUS VALUE

Introduction

In the preceding part of our course we analysed in detail the basic production relation of the bourgeois society, the relation between the proletariat and the bourgeoisie. In doing this we ignored the contradictions existing within the class of exploiters; for instance, the contradictions between the interests of industrial capital, commercial capital, banking capital and the landowners. It goes without saying that these contradictions, by their nature, involve different principles than the contradiction between the proletariat and the whole of the various groups of exploiters. The proletariat is exploited directly in the process of production by industrial capital: the surplus value created by the proletariat represents a source of income to ALL groups of capital and landowners. The relations between the exploiting groups represent only a struggle for the division of the surplus value which the working class produces.

But these relations, like all other relations in bourgeois society, appear not openly but in a disguised, fetishised form. To all appearances, the incomes of the different groups of exploiters (profit, interest, ground rent) originate from entirely independent sources and have nothing in common with the exploitation of the working class. Moreover, wages themselves appear not as income distinguished in principle from all the other forms of income and opposing all of them, but as one of the forms of income. The Marxian theory of surplus value is so significant—precisely because it exposes this disguise and analyses the relations between the proletariat and the

exploiting class as a whole, and analyses surplus value independently of its special forms. We have already pointed this out in the previous chapters (see Lessons II and III). But now we must investigate how the surplus value created by the working class assumes the special forms which hide the real source of unearned incomes, and under what economic laws surplus value is distributed between the different groups of the bourgeoisie.

The surplus value created by the working class exists at the completion of the process of production in the commodities, it exists in the commodities created by the workers. The first to appropriate it is the industrial capitalist, but it does not become entirely his property :

> *"The capitalist who produces surplus value, i.e., who extracts unpaid labour directly from the labourers, and fixes it in commodities, is indeed the first appropriator but by no means the ultimate owner of this surplus value. He has to share it with capitalists, with landowners, etc., who fulfil other functions in the complex of social production."* (*Capital*, Vol. I, p. 618.)

In investigating this process of distribution of surplus value and its conversion into special forms of income, we shall first investigate how the surplus value is converted into industrial profit, into the profit of the industrial capitalist. In doing this we shall ignore for a while the existence of the commercial capitalists, banks and landowners, and will proceed from the assumption that the entire surplus value falls into the hands of the industrial capitalists. This assumption is necessitated by the fact that the part of the surplus value which is appropriated by the industrial capitalists appears not as such, but as a converted form of profit. In order to understand this form it is necessary for a while to ignore all other forms which surplus value assumes. We shall then proceed to study commercial capital, its functions, and the process by which industrial capital yields a part of the surplus value to the commercial bourgeoisie. But here again we shall ignore the existence of the money capitalists and

landowners and assume that the entire surplus value falls into the hands of the industrial and commercial capitalists alone. This will be followed by a study of loan capital independent of the nature and formation of interest. For the time being we also shall ignore the existence of ground rent and landowners, these two factors being analysed last of all.

Such a successive analysis is the only way by which we can gain a full understanding of the process of the formation of the different types of unearned income under capitalism. In order to understand any phenomenon we must consider it not in its final form but study the process of its origin and development. Profit, commercial profit, interest on loans, and ground rent are the final converted forms of surplus value, and in order to understand them it is necessary to study the actual process of the conversion of surplus value into these forms.

I. Profit

1. PROFIT AND THE RATE OF PROFIT

How is surplus value converted into profit?

As we have seen in Lessons I and II, surplus value is not an addition to the value of the commodity, but is a part of the value of the commodity. The worker adds to the value of the means of production a new value, which is divided into the value of the variable capital and surplus value.

But to the capitalist things appear differently. The capitalist estimates the cost of a commodity according to the value of the means of production consumed in the process of production, that is the cost of production. Therefore, the cost of production appears to the capitalist to be the real value of the commodity, while the profit appears not as a part of the value, but as an addition to the value which the capitalist makes when he sells his commodity, that is in the process of circulation. Hence the idea that profit arises out of the process of circulation.

> " The minimum limit of the selling price of commodities is indicated by their cost price. If they are sold below their cost price, then the consumed elements of productive capital cannot be fully reproduced out of the selling price. If this sort of thing continues, then the value of the advanced capital disappears. This point of view is sufficient to incline the capitalist toward the opinion that the cost price is essentially the inmost value of commodities, because it is the price required for the bare conservation of his capital. Furthermore, the cost price of a commodity is the purchase price paid by the capitalist himself for its production, in other

words, the purchase price determined by the process of production itself. For this reason, the surplus value realised by the sale of a certain commodity appears to the capitalist as an excess of its selling price over its value, instead of an excess of its value over its cost price, so that accordingly the surplus value incorporated in a commodity is not realised by its sale, but arises out of the sale itself." (Marx, *Capital*, Vol. iii, pp. 50-1.)

Apart from these circumstances which obscure the origin of profit it is necessary also to take into account the fact that the capitalist does not draw any distinction between constant capital and variable capital.

From his point of view, capital consists of Fixed Capital and Circulating Capital. The fixed capital includes the buildings, machinery and auxiliary materials, which only gradually wear out in the process of production, and the value of which is returned to the capitalist in parts. The circulating capital includes raw materials, auxiliary materials and wages, which turn over much faster than the value of the fixed capital. The division of capital into constant and variable, originally made by Marx, reveals the secret of capitalist production and shows the real source of profit. The division of capital into fixed and circulating capital is a division from the point of view of the speed of the turnover of the different parts of capital. In this division the distinction between constant capital and variable capital disappears, as will be seen from the following scheme:

Constant Capital		Variable Capital
Instruments of Labour (Machinery, etc.)	Objects of Labour (Raw Materials)	Wages
Fixed Capital	Circulating Capital	

Classed as circulating capital, wages are contrasted not to Constant Capital as a whole but together with a part of Constant Capital (raw materials) they are

contrasted to fixed capital. This means that wages (Variable Capital) generally cease to be a special part of capital representing the only source of profit. In this way the process of increase of capital is completely disguised.

The important thing to the capitalist is not only how much money he must spend in wages in order to make a certain profit, but how much he must spend on raw materials, machinery, etc. He is interested in making economies in all the component parts of the cost of production.

> "In the second place, under the head of expenses, among which wages are classed the same as the price of raw materials, wear and tear of machinery, etc., the appropriation of unpaid labour figures only as a saving in the payment of an article added to the expense, only as a smaller payment for a certain quantity of labour. A saving is recorded in the same way, whenever raw materials are bought more cheaply, or the wear and tear of machinery decreases. In this way the appropriation of surplus labour loses its specific character. Its characteristic relation to the surplus value is obscured. And this is greatly facilitated, as shown in Volume I, Part VI, by the representation of the value of labour-power in the form of wages." (Marx, *Capital*, Vol. iii, p. 58.)

Surplus value appears to be the product of the entire capital. Therein precisely lies its conversion into profit. We have seen in the fourth Lesson how the value of labour-power is converted into wages. The value of labour-power as the price of labour receives its expression in wages. In reality the wages are equal to only a part of the new value created by the worker in the course of a day's work. But if the value of the labour-power appears in such a form that the entire labour of the worker seems to be paid for, then the surplus value cannot be represented as a result of unpaid labour but must appear as the offspring of capital.

"In its alleged capacity of an offspring of the advanced total capital, the surplus value assumes the change of form known as profit. Hence a certain value is capital when it is advanced with a view to generating profit, or profit results from the investment of a value as capital. If we designate profit by p, we may convert the formula: $C = c + s$, or $k + s$, into the formula $= k + p$, in other words, *the value of a commodity is equal to the cost price plus the profit.*" (Marx, *Capital*, Vol. iii, p. 49.)

Thus, profit is the same surplus value, though made to appear as originating not from the variable capital but from the whole of capital. The capitalist measures the income from his capital not by the rate of surplus value, not by the ratio of M to V, but by the rate of profit, that is by the relation of M to C + V (i.e., the entire capital). The rate of profit always constitutes a smaller quantity than the rate of surplus value (see Lesson III). The rate of surplus value is as many times larger than the rate of profit as the entire capital is than the variable capital.

The rate of profit depends upon various factors. Firstly, upon the rate of surplus value. Take the following example: A capital consists of $8,000 C and $2,000 V. If the rate of surplus value is 100 per cent., then the mass of surplus value or the mass of profit[1] will be $2,000, but the rate of profit, 20 per cent. (2,000 : 10,000 = 20 per cent). If the rate of surplus value is 150 per cent., then the mass of the profit will be $3,000 and the rate of profit 30 per cent. In other words: THE RATE OF PROFIT IS THE HIGHER, THE LARGER THE RATE OF SURPLUS VALUE OF THE DEGREE OF EXPLOITATION.

The rate of profit depends, secondly, upon the speed with which capital turns over. If a capital of $10,000 ($8,000 C + $2,000 V) turns over in a year once then

[1] It is necessary to remember that we are dealing so far with the industrial capitalists and are assuming that the entire surplus value is converted into profit alone, ignoring the commercial profit, the interest and the ground rent.

the mass of surplus value produced will be \$2,000 ; if it turns over twice per year then the mass of surplus value will be \$2,000 + \$2,000 = \$4,000, and the annual rate of profit will be 40 per cent. against 20 per cent. In speaking of the rate of profit we always bear in mind its annual rate, that is the ratio between the mass of surplus value produced in a year and the amount of capital advanced. Hence, THE QUICKER THE TURNOVER OF CAPITAL, THE GREATER THE RATE OF PROFIT.

The rate of profit depends, thirdly, upon the organic composition of the capital. Let us take two capitals of \$10,000 each, one consisting of 7,000 C and 3,000 V, and the other of 8,000 C and 2,000 V.

Given the same rate of surplus value, say 100 per cent., the first capital will have a mass of profit of \$3,000 and a rate of profit of 30 per cent., while the second capital will have a mass of profit of \$2,000 and a rate of profit of 20 per cent. Hence, THE HIGHER THE ORGANIC COMPOSITION OF CAPITAL (that is the greater the share of constant capital in it) THE LOWER THE RATE OF PROFIT.

As before, we still continue to assume that the commodities are sold at their value. In the sale of commodities at their value the rate of profit will be the higher, the higher the degree of exploitation, the quicker the turnover of capital and the lower its organic composition.

It follows that on equal capital investments different capitalists have different rates of profit. Yet, it is a fact that different capital investments yield on the average equal rates of profit. This fact cannot be explained by the assumption that all capitals have an equal rate of surplus value, an equal speed of turnover, and an equal organic composition. Even if we assume that the rate of exploitation and the speed of turnover in all the capitalist enterprises are the same, we must still meet with some factors which make the existence of an equal organic composition in every enterprise impossible.

If we take two factories in one and the same industry,

for instance in the shoe industry, then the process of competition leads to the equalisation of the speed of turnover and of the organic composition of the capitals and to an equalisation of the rate of profit in these factories. But if we take factories belonging to DIFFERENT INDUSTRIES, for instance, a shoe factory, a chemical plant, an electrical station, a machine-building factory and an agricultural enterprise, it is quite clear that they cannot have the same structure of capital. For precisely because these are different spheres of production, each of them has such technical peculiarities of production which necessarily result in an unequal organic composition of capital. Hence, IN DIFFERENT INDUSTRIES, if the commodities were sold at their value, different rates of profit will result. Yet we have on the average the same rate of profit in all of them.

One of two things would appear to be true: either Marx's theory of value is incorrect as it does not agree with the facts, or the facts are incorrect. (All the critics of Marx have attempted, though unsuccessfully, to prove the incorrectness of Marx's theory of value on the ground that it contradicts the fact of the equality of the rate of profit. We shall deal below with these critics of Marx.) But both the one and the other are true. The question is how to explain and prove on the basis of the theory of value and with its aid, the necessity of an equal rate of profit in different industries.

2. CONVERSION OF PROFIT INTO AVERAGE PROFIT

Let us imagine that the entire social capital is distributed among three industries, though in reality the number of industries is very large. We take only three industries as these are quite sufficient for an understanding of how the different rates of profit in different industries become converted into an average rate. Nothing essential would be changed by our taking ten, twenty or thirty industries instead of three. This would only result in complicating our computations without changing their meaning. Let us further

assume that in these three industries equal capital investments exist, though of various organic compositions. In reality, the size of the capital investments in the different industries is not the same. But the size of the capital does not affect the rate of profit, which is determined by the organic composition of capital.

Supposing in the first industry the capital consists of 80 C and 20 V (this may be 80,000, 80 million, etc.). In the second industry the capital consists of 70 C and 30 V, and in the third industry of 60 C and 40 V. In case of an equal rate of surplus value, say of 100 per cent., of an equal turnover, say once a year, there will be created in the first industry a mass of surplus value equal to 20 M, in the second 30 M and in the third 40 M. Assuming for the sake of simplicity that in the course of one year the composition of the value of the product includes the value of the ENTIRE constant capital, then the value of the product of the first industry is 80 C + 20 V + 20 M = 120, the value of the product of the second industry 130, and the value of the product of the third industry 140. If the commodities are sold at their value the capitalists of the first industry make a profit of 20, the capitalists of the second industry a profit of 30, and those of the third a profit of 40. The rate of profit in the first industry will be 20 per cent., in the second 30 per cent., and in the third 40 per cent.[1]

However, such a condition is impossible since capital tends to migrate into that industry in which the rate of profit is the highest. The capitalists are very little interested in the use-value of the commodities produced in the given industry; they are interested primarily in the rate of profit which they make on their capital. In our example it is the third industry

[1] The situation will not change in the least if we assume that only a part of the constant capital is consumed during the year. If in the first industry, for instance, only 40 C is transferred into the composition of the value of the product during a year, then the value of the product will be 40 C + 20 V + 20 M = 80. But the rate of profit is calculated on the basis of the ENTIRE CAPITAL, that is 80 C + 20 V. Hence, it remains equal to 20 per cent.

which will get the most capital since here the profit is the highest. But this strengthens the competition between the capitalists of the given industry, and the prices of the products of this industry will begin to fall until they sink below the value of these commodities. In the first industry the competition will be weaker since here the rate of profit is the lowest, less capital will flow into it, and a part of the capital may under certain conditions even leave this industry. Consequently the capitalists of the first industry will be able to sell their commodities at prices exceeding their value.

But if in the third industry the prices fall below the value, the capitalist of this industry will be unable to realise (to convert into money) the entire mass of surplus value contained in the commodities of this industry; they will realise not 40 M, but less. The capitalists of the first industry, by selling their commodities at a price exceeding their value, will realise a greater amount of surplus value than was created directly in this industry, and they will also to a certain extent realise a part of the surplus value created in other branches of production. Once they sell all their commodities at a price exceeding 120, they will make a profit also exceeding 20. In this way the rate of profit decreases in some industries and increases in others, that is, the *rate of profit tends to equalise and approach some average level.*

We can picture this process by the following table:

Industries	Capital Composition	Surplus Value	Value of Product	Price of Product	Rate of Profit	Difference between Price & Value
I	80c+20v	20	120	130	30%	+10
II	70c+30v	30	130	130	30%	—
III	60c+40v	40	140	130	30%	—10
	210c+90v	90	390	390	30%	—

It is perfectly clear that the average rate of profit,

towards which the rates of profit in the different industries gravitate, will be 30 per cent. This is the social and, therefore, the average rate of profit. If we take the ratio between the entire mass of surplus value created in society (90) and the entire social capital (210 C + 90 V = 300), we will get the average rate of profit. The competition between the capitals, by their migration from enterprise to enterprise from one branch of industry to another, tends to equalise the rate of profit for different capitals, reducing it to the average social rate of profit.

> " Since the capitals invested in the various lines of production are of a different organic composition, and since the different percentages of the variable portion of these total capitals set in motion very different quantities of labour, it follows that these capitals appropriate very different quantities of surplus labour, or produce very different quantities of surplus value. Consequently the rates of profit prevailing in the various lines of production are originally very different. These different rates of profit are equalised by means of competition into a general rate of profit, which is the average of all these special rates of profit. The profit allotted according to this average rate of profit to any capital, whatever may be its organic composition, is called the average profit." (Marx, *Capital*, Vol. iii, p. 186.)

In this way the surplus value is redistributed among the capitalists of the different industries. That part of the surplus value which is not realised by the capitalists of the third industry is not lost to the capitalist class as a whole since in the process of competition it passes on to the capitalists of the first industry. The difference between the profit and the surplus value which is realised by the capitalists of the first industry does not originate out of nothing, nor does it originate in the process of circulation, but is created in the process of production though in a different industry ; the process

of circulation merely serves as the instrument by which the surplus value is distributed among the capitalists of the different industries. But the total sum of profit does not decrease or increase in consequence; it remains equal to the total sum of surplus value created in all the industries (in our example, 20 + 30 + 40 = 30 + 30 + 30 = 90). Out of this total sum each capitalist receives a share corresponding to the size of his capital on the basis of the law of the average rate of profit.

> "While the capitalists in the various spheres of production recover the value of the capital consumed in the production of their commodities through the sale of these, they do not secure the surplus value, and consequently the profit, created in their own sphere by the production of these commodities, but only as much surplus value, and profit, as falls to the share of every aliquot part of the total social capital out of the total social surplus value, or social profit produced by the total capital of society in all spheres of production. Every 100 of any invested capital, whatever may be its organic composition, draws as much profit during one year, or any other period of time, as falls to the share of every 100 of the total social capital during the same period. The various capitalists, so far as profits are concerned, are so many stockholders in a stock company in which the shares of profit are uniformly divided for every 100 shares of capital, so that profits differ in the case of the individual capitalists only according to the amount of capital invested by each one of them in the social enterprise, according to his investment in social production as a whole, according to his shares." (Marx, *Capital*, Vol. iii, pp. 186-7.)

It may thus be definitely stated that owing to the equalisation of the rate of profit and the formation of an average rate of profit, those industries whose organic composition of capital is below the average receive a less profit than the surplus value created by

them, while in the industries with a higher organic composition of capital the profit exceeds the mass of surplus value created by them.

We see that the equalisation of the rate of profit and the creation of an average rate of profit takes place in such a way that in some industries (those with a higher organic composition) the prices are above the value, in others (those with a low composition) the prices are below the value, while in the third group (with the average organic composition of capital) the prices coincide with the value. The realisation by all the industries of an average profit thus takes place in such a way that in every industry the price of the commodity is formed out of the cost of production plus the average profit.

> "The prices which arise by drawing the average of the various rates of profit in the different spheres of production and adding this average to the cost prices of the different spheres of production, are *the prices of production.*" (Marx, *Capital*, Vol. iii, p. 185.)

In capitalist economy commodities are sold at their prices of production. In spite of the fact that the prices of some commodities are above their value, while the prices of others are below their value, the fundamental law, that value determines the price of commodities, is not altered. All deviation of price of production from value cannot go beyond the limits set by value: the total sum of all prices of production is equal to the total sum of the value of all commodities (in our example, $120 + 130 + 140 = 130 + 130 + 130 = 390$).

Under monopolistic capitalism the monopolies (syndicates, cartels, trusts, concerns) create obstacles to the migration of capital from one industry into another and thereby also to the equalisation of the rate of profit. While the capitalists of the monopolised industries receive through the so-called cartellised superprofit a rate of profit above the average, the untrustified industries receive a profit below the average. But

from this redistribution of the profit the total sum does not cease to be equal to the total sum of the surplus value. Consequently the total sum of the prices of all commodities remains equal to the total sum of their value.

The same process of competition which converts profit into average profit, converts value into the price of production.

The price of production (which is equal to the cost of production plus the average profit) represents a converted form of value. We have already familiarised ourselves in our course with a series of converted forms. Thus value is a converted form of social labour in the commodity-producing society (see Lesson I). Wages are a converted form of the value of labour-power (see Lesson III); profit is a converted form of surplus value (see above). In all of these converted forms the essential thing is that they hide, envelop in some mystery, and make invisible, their contents. Now we have before us one more converted form, the price of production. What is the content of the price of production? Value! But at the same time the price of production masks and makes invisible this content.

Indeed, the price of production is made up of the cost of production and the average profit. But the cost of production, as we have seen at the beginning of this Lesson, obscures the source of surplus value contained in it.

As regards the other part of the price of production, the average profit, it now differs from the surplus value not only quantitatively but also qualitatively. We have seen above that profit is the same surplus value, only regarded as the product of the entire capital. Therein lies the *qualitative* differences between profit and surplus value which is actually created only by variable capital. Therein lies the essence of profit as a converted form of surplus value. But *quantitatively* the difference existed only between the rate of profit and the rate of surplus value, rather than between the mass of profit and the mass of surplus value.

" But there was an actual difference of magnitude only between the RATES of surplus value and of profit, not between the MASSES of surplus value and profit. Since the surplus value was calculated on the total capital in figuring up the rate of profit, and this total capital was regarded as the standard of measurement, the surplus value itself seemed to have its origin in the total capital and to proceed from all its parts uniformly, so that the organic difference between constant and variable capital was obliterated. In its disguise of profit, the surplus value had actually concealed its origin, lost its character and become unrecognisable. However, hitherto the distinction between profit and surplus value referred only to a change of quality, or form, and there was no real difference of magnitude between the masses of surplus value and profit, but only between the rates of surplus value and profit, in this first stage of their metamorphosis.

" But this is changed, as soon as a general rate of profit and, by means of it, an average mass of profit corresponding to the magnitude of the capital invested in the various spheres of production, have been established.

" After that it is but accidentally that the surplus value actually produced in any particular sphere of production and thus the profit, is identical with the profit contained in the selling price of the commodities. It then becomes the rule, that not only the RATES of surplus value and profit are the expression of different magnitudes, but also the MASSES of surplus value and of profit. Assuming a certain degree of exploitation to exist, the mass of surplus value produced in any particular sphere of production is now more important for the average profit of the total social capital, and thus for the capitalist class in general than for the individual capitalist in any individual line of production. It has any importance

for the individual capitalist only to the extent[1] that the quantity of surplus value produced in his line plays a determining role in regulating the average profit. But this is a process which takes place behind his back, which he does not see nor understand, and which, indeed, does not interest him at all. The actual difference of magnitude between profit and surplus value—not merely between the rate of profit and of surplus value—in the various spheres of production now conceals completely the true nature and origin of profit, not only for the capitalist, who has a special interest in deceiving himself on this score, but also for the labourer. By the transformation of values into prices of production the basis of the determination of value is itself removed from direct observation." (Marx, *Capital*, Vol. iii, pp. 197-8.)

Thus the average rate of profit in no way contradicts the Marxian theory of value. On the contrary, precisely on the basis of the theory of value and surplus value does Marx show where the average rate of profit comes from and how it is formed; he shows not only the qualitative but also the quantitative conversion of surplus value into profit and of value into the price of production; at the same time he removes the cover of mystery both from profit and from the price of production and shows how they mask their contents.

3. A CRITICISM OF THE BOURGEOIS CRITICS OF THE MARXIAN THEORY OF PRICE OF PRODUCTION.

In spite of the fact that Marx gave the only correct explanation of the price of production, the entire post-Marxian bourgeois political economy as well as the modern Social-Democratic theoreticians attempt to overthrow the Marxian theory of value and surplus

[1] Of course we leave aside, at least for the moment, the question of the probability of securing an extra profit by cutting wages, monopoly prices, etc.

value by the argument that there is an irreconcilable contradiction between the Marxian theory of value and its theory of the price of production ; they allege that in the theory of value of Marx, he maintains that commodities are sold at their value, while in the theory of price of production he maintains the very opposite, namely that commodities are sold not at their price but at the price of production which differs from the value. In this way Marx's entire theory of value is supposed to topple over, and with it must come down also his theory of surplus value.

It will be remembered that Marx expounded his theory of value in the first volumes of *Capital* and the analysis of the prices of production (which, as we have seen, are nothing but a converted form, a development of value ; something that Marx's " critics " cannot and will not understand) in the third volume of *Capital*. Marx's bourgeois " critics " construed the famous " contradiction " between the first and the third volumes of *Capital*. This criticism was developed to the fullest degree by the bourgeois economist Bohm-Bawerk, a most prominent representative of the so-called Austrian school of political economy. The bourgeois economists of more recent times, and the Social-Democrats who follow in their wake, have added nothing new to Bawerk's discoveries.

The reason for the " contradiction " between the first and the third volume of *Capital* created by the bourgeois economists is perfectly clear : they want to destroy the scientific truth, hated by all the enemies of the proletariat, that the prices of commodities are regulated by their value, and that value itself is created by labour, a truth which reveals and exposes the entire mechanism of capitalist exploitation. They fear this truth, which according to their predecessor, the Malthusian apologist, is very dangerous.

> " The theory that Labour is the only source of wealth is dangerous as much as erroneous, because it gives ground to those who support the theory that

the whole property belongs to the toiling classes and that the part received by others seems to be stolen from the former." (Marx, *Capital*, Vol. iii, p. 55, "The Theory of Surplus Value.")

The argument about the "contradiction" between the first and third volumes of *Capital* shows that Marx's critics understand neither his theory of value nor his theory of prices of production.

Already, in the first Lesson, we saw that Marx does not maintain that commodities are sold at their value. On the contrary the anarchy of commodity production constantly results in the prices differing from this value. Only through these fluctuations of prices does the law of value work its way. Therein lies the significance of the law of value, it governs the movement of prices (see Lesson I, pp. 23-6). In the society of simple non-capitalist commodity producers in the so-called simple commodity-producing economy (see Lesson II) value cannot be converted into the prices of production for there is still no profit, no rate of profit, no average profit, since there is no capital here as yet.

Further, in the analysis of the capitalist process of production as production of surplus value, Marx bases himself all the time upon the proposition that commodities are bought and sold at their value. It is wrong to think that this assumption was invented by Marx merely for the convenience of proving his propositions and that under capitalism commodities are never sold at their value. Marx's proposition corresponds to the historical truth, since at the early stage of development of industrialism, the manufacturing period, when the organic composition of capital was very low and the greatest part of the capital consisted of variable capital, the commodities produced in capitalist establishment were sold approximately at their value and originally different industries yielded different rates of profit. Only after the emergence of industrial capital from this initial stage was value converted into the price of production.

Marx's assumption in the first volume of *Capital* that commodities produced capitalistically are sold at their value is absolutely correct also in the sense that only under this condition is it possible to understand how capitalist production originates from commodity economy and develops on its basis (see Lesson II). On the other hand, the main thing investigated by Marx in the first volume (which corresponds to the contents of the first four books of our Course) are the production relations between the working class and the bourgeoisie. And the value of the labour-power, as we know, is converted not into the price of production but into wages. The law of the price of production has no effect upon the commodity labour-power since the labour-power is produced not in a capitalist enterprise but in the process of the consumption by the workers of the means of subsistence. In his first volume Marx proves that even in the best case from the point of view of the worker, in the case of his labour-power being paid at its full value, the capitalist, according to the laws of commodity production, still appropriates the unpaid labour of the workers. The law of the price of production has no effect upon the "labour-power" commodity. The analysis of the fundamental production relation under capitalism, the relation between the proletariat and the bourgeoisie, may quite legitimately ignore the fact that under developed capitalism the value of commodities (with the exception of the commodity labour-power) is converted into the price of production.

When this process of conversion has been completed the price of production is by no means a contradiction of value but only its development. In the foregoing we have shown that Marx deduces the prices of production from value. We have also seen that the sum of the process of all commodities is equal to the sum of their values. This fact is of the greatest importance.

The average profit and, therefore, the price of production would be simply imagination and empty if we would not accept as a basis the determination of

value. The equalisation of surplus value in various spheres of production does not change anything in the absolute quantity of this surplus value as a whole, it changes only its distribution among these spheres of production. But the determination of surplus value proceeds only from the determination of value of the labour time. The average profit without this is an average of nothing, a simple fantasy. And in this case it could become a thousand per cent. as easily as ten.

The average profit must be an average of something —otherwise there cannot be an average profit; it cannot be anything but the average of surplus value created in different fields of production.

That the price of production does not destroy value and the law of value follows not only from the equality of the sum of prices and the sum of values but also from the fact that with the change of the values of commodities (owing to the increase of the productive power of labour) the prices of production also change. With an increase of the productive power of labour a smaller part of the total social labour enters into each individual commodity, the cost of production consequently decreases, as does also the average mass of surplus value contained in each commodity, that is the price of production decreases.

> "Whatever may be the way in which the prices of the various commodities are first fixed or mutually regulated, the law of value always dominates their movements. If the labour time required for the production of these commodities is reduced, prices fall; if it is increased, prices rise, other circumstances remaining the same." (Marx, *Capital*, Vol. iii, p. 208.)
>
> "Now since the total value of the commodities regulates the total surplus value, and thus the level of the average profit and the average rate of profit—always understanding this as a general law, as a principle regulating the fluctuations—it follows that the law of value regulates the prices of production." (Marx, *Capital*, Vol. iii, p. 212.)

Marx's critics, who are anxious to represent average profit as an average of nothing in order to hide the fact that profit originates from the exploitation of the working class, reject Marx's explanation of the price of production, but are powerless themselves to give any other scientific explanation of the price of production. The usual bourgeois explanation of prices is that prices are determined by the law of supply and demand, i.e., if the demand exceeds the supply then the prices go up, and if the demand is below the supply the prices go down. This is a well-known fact. But if the demand is equal to the supply how are we to explain the level of prices?

Further, how do the fluctuations of demand and supply explain why a pair of boots, for instance, costs more than a box of matches? There is no way to explain this, if we "ignore" the value of these commodities.

Another current bourgeois explanation of prices is the so-called theory of the "cost of production." The price of production is the cost of production plus the average profit. We have seen that if we ignore surplus value as a factor of profit, then we cannot explain why the average rate of profit is equal to 10 per cent. instead of 100 per cent. or 1,000 per cent., that is we cannot explain one of the component parts of the price of production.

The theory of the "cost of production" attempts to explain the magnitude of the price by the magnitude of its other component part, the cost of production. It is quite true that the higher the cost of production, the higher is the price of production, other conditions being the same. But this does not in the least help us to understand the essence of price and the factors determining it. It is said, for instance, that the price of a suit of clothing is fixed by the cost of its production. But what determines this cost? Evidently the price of the material, the price of the threads used, of the needles, of the depreciated part of the machine, of the labour-power, etc. But what determines the prices of

the means of production going into the production of a suit? Again the cost of production, and this again is evidently determined by the price of the commodities entering into their production, etc., etc., *ad infinitum*, the price being determined by the cost of production and the cost of production by the price. This is a vicious circle which affords no explanation either of price or of the cost of production.

Thus does the bourgeois political economy display its complete bankruptcy. Bourgeois political economy is prepared to move endlessly within this vicious circle, which contradicts all logic and all science, in order to contradict Marxism, the only scientific theory of Political Economy. The "contradictions" construed by the bourgeois economists between the first and third volumes of *Capital*, between Marx's theory of value and his theory of prices of production, only reflect the confusion existing in the heads of the bourgeois economists and their apologetic tendencies determined by their class interests.

But from the fact that no contradiction exists between the Marxian theory of value and the theory of the price of production, it does not yet follow that there is no contradiction at all between value itself and the price of production. We have already shown in our first Lesson that the failure of price and value to coincide is not a defect of the Marxian theory of value but a defect of the bourgeois society. Though the prices of commodities produced under the capitalist mode of production, to be sure, are regulated by their value, they are sold at the price of production, which deviates from the value. Marx in his theory of the price of production shows the necessity of such a deviation as well as the necessity of the contradiction between value and price of production.

> "But I show that just because the value of a commodity is determined by the labour time the average price (the price of the production) of commodity can never be equal to its value (with only one

exception, when, so to say, the individual rate is equal to the average rate of profit of the total capital). In spite of the fact that this determination of the price of production is simply a deduction from its value, which is being determined by the labour time." (Marx, *Capital*, Vol. ii, p. 130, "Theory of Surplus Value.")

The bourgeois economists and the Social-Democratic theoreticians led by them would like to have a "science" which does not expose the contradictions of reality; they need a science which would represent reality as something harmonic and devoid of all contradictions.

And when Marxian science fearlessly exposes the contradictions of capitalism, these learned agents of the capitalist class begin to shout about contradictions in Marx's system; they do it for the purpose of humbugging the public, for after Marx to speak of any other anti-Marxian political economy is only to humbug the philistines, though they be "highly civilised philistines" (Lenin).

CONTROL QUESTIONS

1. How is surplus value converted into profit ?
2. In what relation does the rate of profit stand to the rate of surplus value, to the rapidity of the turnover of capital, to the organic composition of capital ?
3. How does the average rate of profit arise ?
4. How is value converted into price of production ?
5. Explain why there is no contradiction between Marx's theory of value and his theory of price of production.

II. The Law of the Falling Tendency of the Rate of Profit

1. THE DECLINE OF THE AVERAGE RATE OF PROFIT

The average rate of profit is no unchanging quantity. With the development of capitalism and growth of accumulation, with the growth of concentration and centralisation of capital, its organic composition invariably grows, that is the proportion of the variable capital to the constant capital decreases. But, as we

have seen in the previous chapter, the higher the organic composition of capital the lower the rate of profit.

The rate of profit of the various capitals is equalised by the fact that the prices of commodities in some instances sink below, and in others rise above, their value. For this reason, the capitals in different industries yield the same average rate of profit, regardless of whether their organic composition is high or low. But to the entire social capital the sum of the prices of all commodities is equal to the sum of their values, and the total sum of profit is equal to the total mass of surplus value. Therefore, if the organic composition of the entire social capital grows, the average rate of profit, which is nothing but a relation of the entire social mass of surplus value to the entire social capital, must inevitably fall.

But the fall of the rate of profit does not signify a fall of the mass of profit. The mass of surplus value (which is equal on a social scale to the mass of profit) depends upon the number of workers exploited and the degree of exploitation. The larger the number of workers employed, the larger, other conditions being the same, is the mass of surplus value produced by the working class, and therefore also the mass of profit. But this does not in the least contradict the fact that the rate of profit declines, since where the organic composition of capital grows, the constant capital and, with it, the entire capital must grow faster than the variable capital.

Let us illustrate this by the following example. Suppose that for some period of time, say twenty years, the entire social capital of 100 billion dollars, consisting of 70 billion constant and 30 billion variable capital, has been doubled and that its organic composition has also increased. Let us assume that the new capital of 200 billion dollars now consists of 160 c and 40 v. Here we see an absolute growth of the variable capital (from 30 to 40) and its relative fall, compared to the entire capital, from 30 per cent. to 20 per cent. This is due to

the fact that the constant capital has grown faster than the variable capital. Assuming a rate of surplus value of 100 per cent., the old capital of 100 billion produces a mass of surplus value equal to 30 billion, this being equal to 30 per cent. of the total capital, while the new capital of 200 billion produces a surplus value of 40 billion. But this increased mass of profit is now expressed in a decreased rate of profit, namely 20 per cent.

In this example we have shown how the rate of profit decreases while the mass of profit grows. The real development actually proceeds in this way, that the organic composition of capital grows, that is, the share of the variable capital in the entire capital decreases, resulting in a decrease of the average rate of profit.

Here, for instance, are statistics relating to the rate of profit in the manufacturing industries of the United States:

1899	..	24·0 per cent.
1904	..	19·9 per cent.
1909	..	18·7 per cent.
1914	..	16·5 per cent.

The capitalists strive to retard the fall of the rate of profit, primarily by intensifying the degree of exploitation. If in our example the degree of exploitation, upon the rise of the organic composition of capital, should rise from 100 per cent. to 125 per cent., then the mass of surplus value would be equal to 50 billion (125 per cent. of 40), while the average rate of profit would be 25 per cent. instead of 20 per cent. If the degree of exploitation should rise to 150 per cent. then the mass of profit would be 60 billion but the rate of profit 30 per cent., that is the rate of profit would not fall. The fall of the rate of profit can be retarded also by other factors, for instance, by the cheapening of raw materials and other elements of the constant capital.

For this reason the rate of profit does not fall steadily, its decline is retarded by counteracting factors, and it

may for certain periods even rise. Marx therefore speaks of the tendency of the rate of profit to fall.[1]

But the counteracting factors may only retard the fall of the rate of profit but cannot stop it, cannot change the general direction of the movement. For the fundamental method with the aid of which the capitalists strive to stop the fall of the rate of profit, namely the intensification of the degree of exploitation, must sooner or later lead to an even sharper fall of the rate of profit.

Indeed, how can the degree of exploitation be increased? By a lengthening of the working day, that is by the production of absolute surplus value, and by an increase of the surplus labour time through a decrease of the necessary labour time, that is by the production of relative surplus value (see Lesson III). We have seen that with the development of capitalism the production of relative surplus value gains an ever greater importance. But this latter takes place through the replacement of labour by machinery, that is through the increase of the organic composition of capital, which in turn leads to a further fall of the rate of profit.

The decrease of the other factors entering into the cost of production, with the aid of which the capitalists strive to retard the decline of the rate of profit, leads to the same results as the increase of the degree of exploitation. The basic method for lowering these costs is the increase of the scale of production, which is supposed to result in a speedier accumulation of capital. But the growth of accumulation inevitably leads to a growth of the organic composition of the capital, that is, again to a decline of the rate of profit.

[1] These factors make it almost impossible to follow out in figures this tendency. Bourgeois figures are not adapted to proving such points. As Clark points out in *National Income* (Macmillan, 8s. 6d.) there is great obstruction put in the way of finding profit figures by the capitalists. The figures published in the *Economist* show the profits of the big trusts. Naturally they have been concentrating profits for their own advantage. The income-tax figures are very difficult to compare with the estimates of national property because there is a danger of the "undistributed middle"—of sections to which both income and property do not tally.

> "Accumulation in its turn hastens the fall of the rate of profit, inasmuch as it implies the concentration of labour on a large scale and thereby a higher composition of capital." (Marx, *Capital*, Vol. iii, p. 283.)

The fall of the rate of profit, which is inevitable owing to the general laws of accumulation of capital, forces its way despite the opposing factors. It represents the general law of development of capitalist production and is of paramount importance for an understanding of the contradictions of capitalism and of its historical destiny.

2. THE FALL OF THE RATE OF PROFIT AND THE LIMITATIONS OF THE CAPITALIST MODE OF PRODUCTION

The fall of the rate of profit is an expression of the growth of the productive power of social labour, since the growth of the organic composition of capital is in itself a growth of the productive forces under capitalism. However, it is not merely an expression of the growth of the productive forces, but a CAPITALIST expression, and is therefore full of inner contradictions.

The object of capitalism is not the development of the productive forces of society. Its object and motive is profit-making on an ever-increasing scale. But capitalism achieves its object by developing the productive forces of society, and this leads to a further fall of the rate of profit. Here we see a contradiction between the development of the productive forces and their capitalist form, that is the capitalist production relations.

The development of the social forces of production, by causing a fall of the rate of profit, puts certain limits upon the capitalist mode of production.

> ". . . So far as the rate of self-expansion of the total capital, the rate of profit, is the incentive of capitalist production (just as this self-expansion of capital is its only purpose) its fall checks the formation of new independent capitals and thus seems to threaten the development of the process of capitalist

production. It promotes over-production, speculation, crises, surplus capital along with surplus population." (Marx, *Capital*, Vol. iii, p. 283.)

The limit of the capitalist mode of production is not the productive forces of society, but their capitalist form. The restriction of their development arises from the character of the forces themselves, but the capitalist appropriation, that is capital itself, as a definite relation of production.

"THE REAL BARRIER OF CAPITALIST PRODUCTION IS CAPITAL ITSELF. It is the fact that capital and its self-expansion appear as the starting and closing point, as the motive and aim of production, that production is merely production for CAPITAL, and not vice versa, the means of production mere means for an ever-expanding system of the life process for the benefit of the SOCIETY of producers." (Marx, *Capital*, Vol. iii, p. 293.)

Capital achieves this by developing the productive forces to the utmost, striving thereby to overcome the fall of the rate of profit. Capitalist production is production not for the satisfaction of the needs of the masses. The higher the rate of profit, the smaller the portion of the product produced by the masses going to them, and the greater the poverty of the masses. The inevitable result is that the growth of the social production (which serves as an expression of the growth of the productive forces) defeats the object pursued by capital, and steps beyond the limits created by capitalism, which are based upon a low consumption, and upon the impoverishment of the masses. The commodities produced cannot be consumed for they cannot be sold, and the surplus value contained within them cannot be converted into money, cannot be realised by the capitalists.

"The barriers, within which the preservation and self-expansion of the value of capital resting on the expropriation and pauperisation of the great mass of producers can alone move, these barriers come

continually in collision with the methods of production, which capital must employ for its purposes, and which steer straight toward an unrestricted extension of production, toward production for its own self, toward an unconditional development of the productive forces of society. The means, this unconditional development of the productive forces of society, comes continually into conflict with the limited end, the self-expansion of the existing capital. Thus, while the capitalist mode of production is one of the historical means by which the material forces of production are developed and the world market required for them created, it is at the same time in continual conflict with this historical task and the conditions of social production corresponding to it." (Marx, *Capital*, Vol. iii, p. 293.)

The capitalist mode of production indeed develops the productive forces, but at the same time it must hinder their development. The greater the development of the productive forces the less compatible are they with the capitalist relations. At a certain stage of development the further progress of the forces of production becomes impossible within the limits of capitalist relations of production; it becomes necessary to destroy these relations. Hence, the limits of the capitalist mode of production are not the productive forces themselves, not the absolute technical impossibility of their further development, but the capitalist production itself.

The historical limitations of the capitalist mode of production, which finds its expression in the fall of the rate of profit, vaguely reaches the consciousness even of the bourgeois economists:

"Those economists who, like Ricardo, regard the capitalist mode of production as absolute, feel nevertheless that this mode of production creates its own limits, and therefore they attribute this limit, not to production, but to nature (in their theory of rent). But the main point in their horror over the

falling rate of profit, is the feeling that capitalist production meets in the development of productive forces a barrier, which has nothing to do with the production of wealth as such, and this peculiar barrier testifies to the finiteness and the historical, merely transitory, character of capitalist production. It demonstrates that this is not an absolute mode for the production of wealth, but rather comes in conflict with the further development of wealth at a certain stage." (Marx, *Capital*, Vol. iii, p. 283.)

To-day we have shoals of " economists " terrified that some deduction will be drawn from the clear and obvious contradictions between productive forces and capitalist monopoly control. The " technocrats " in U.S.A., the " consume more " and " spend more " economists (Keynes, Stamp, Hobson, etc.) in Britain, produce the most ridiculous " way outs " in order to evade this point. G. D. H. Cole writes that " the State must step in " in order to save capital being wiped out by " failure of demand " ; if not, both the State and " the private owners of capital " are impoverished. (*Saving and Spending*.)

It would be very erroneous to think that capitalism will automatically collapse through the fall of the rate of profit, that the rate of profit will become so low that capitalism will gradually die of itself ; on the contrary, the lower the rate of profit, the greater the efforts made by capitalism to retard its fall by means of increasing the degree of exploitation. This sharpens the contradictions between the bourgeoisie and the proletariat and leads to the proletarian revolution. Capitalism strives to overcome the fall of the rate of profit both by the creation of monopolies retarding the development of the forces of production, and by the export of capital to the colonies where a higher rate of profit can be secured. But this sharpens the contradictions between the monopolies, between the capitalist countries and between the " mother countries " and the colonies. The growth of these contradictions, in turn, sharpens

the fundamental antagonism between the bourgeoisie and the proletariat.

> "Capitalist production is continually engaged in the attempt to overcome these immanent barriers, but it overcomes them only by means which again place the same barriers in its way in a more formidable size." (Marx, *Capital*, Vol. iii, p. 293.)

The conflict between the forces of production (the proletariat being the fundamental force of production) and the capitalist relations of production, a conflict which is not mitigated but is rendered more acute by the attempts of capitalism to overcome its own limits, gives rise to the proletarian revolution.

CONTROL QUESTIONS

1. Why must the average rate of profit fall?
2. Why cannot the fall of the rate of profit be overcome by the contracting factors?
3. What contradictions arise from the fall of the rate of profit?

III. Commercial Capital and Commercial Profit

In the first chapter we saw how surplus value is converted into profit. Profit is a converted form of surplus value, a form under which surplus value appears as the product of the entire capital. But in doing this we ignored the existence of commercial capital, assuming that the entire surplus value, in its converted form, in the form of profit, falls into the hands of the industrial capitalists alone.

Now that we know how surplus value is converted into profit, and how it is distributed among the different capitalists on the basis of the average rate of profit, we are able to study the question of how the commercial capitalists receive their share of the total mass of surplus value which the working class creates in industry. To do this we must first study what functions commercial capital performs in capitalist economy.

I. THE FUNCTION OF COMMERCIAL CAPITAL

There was a time when the prevalent form of capital

was commercial capital.[1] Production was still simple commodity production (handicrafts in the cities and small farms in the villages). Commercial capital, which acted as the middleman between the small producer and the market (chiefly in international trade), gradually brought the small producer under its control. The commercial capital of the epoch of commercial capitalism and primitive accumulation made its profit by buying commodities from the small producers below their value and frequently selling them above their value (see Lesson II). Such commercial capital continues to exist to this day in the backward countries and in certain branches of production, where petty industry still holds an important place.

But it is not this commercial capital that we refer to in studying the question of the share received by commercial capital in the surplus value created by the industrial workers in the capitalist factories. We are interested in the role of commercial capital in the system of Industrial Capitalism, that is, commercial capital which handles the goods produced in the capitalist factories.

It is well known that factories, as a rule, do not themselves sell their products to the consumer. Before going into the hands of the consumer the commodity passes through a complex system of commercial channels: wholesale trade, wholesale retail and retail trade.

The movement of the commodities from the place of production to the place of consumption has a dual character under capitalism. Firstly, we have here such a movement of use-values and such operations as are necessary in every society. This includes transportation, storage, packing, sorting, etc. All of these processes are processes of circulation in the pure sense of the word, they do not arise out of the fact that these use-values are not mere use-values but are commodities and indeed commodities produced under capitalist

[1] For a discussion of this period see *Brief History of Russia*, Vol. i, Pokrovsky (Martin Lawrence), Appendix.

conditions. These Processes are Processes of Production continued in the Sphere of Circulation. Take the case, say, of sugar taken from Cuba to the street market in London.

To be sure, transportation does not directly change the material character of the sugar transported. But sugar finally becomes a use-value only where it can be consumed. For this reason, the geographical transfer of sugar, that is its transportation, in a way completes the process of production of sugar, the process of its final conversion into a use-value. Thus the labour of the transport workers creates value, in proportion to which the value of the commodities transported grows. The same applies to all the other operations enumerated above.

However, under capitalism the use-values produced are commodities which contain surplus value squeezed out of the workers. When a capitalist sells a commodity he does not at all make it his purpose to satisfy the needs of the consumer. The important thing to him is to convert into money (or realise) the value of the constant and variable capital contained in the commodity, as well as the surplus value. This conversion of value from its commodity form into money form (and the inverse conversion through the purchase of the means of production and labour-power) represents a process of circulation in the proper sense of the word.

This process of circulation arises out of the capitalist form of production and distribution of products. To serve this process is the special function of commercial capital.

The merchant, the commercial capitalist, may and frequently does himself engage in the transportation of the commodities, their storage, etc. He may have special workers for this, may invest his capital into transport facilities, store-rooms, etc. But in doing this he does not act in his specific role of commercial capitalist, but in the role of industrial capitalist, investing his capital into production which continues in the sphere of circulation. He might just as well

transport his commodities by the transport facilities belonging to other people (railways, steamships, motor trucks) and keep his commodities in other people's storehouses which are rented out. The business of transportation and storage is generally becoming more and more of an independent business; this clearly shows that the transportation, storing and packing of commodities are not special functions of COMMERCIAL CAPITAL. Its special function consists in serving the process of circulation in the pure sense of the word, that is of converting the value from a commodity form into a money form and vice versa.[1]

The process of circulation involves special expenditures, such as the keeping of accounts with the buyers and sellers, the discounting of bills, correspondence, the receipt and payment of money. Then there are the expenditures connected with competition, such as advertising, travelling salesmen, etc.

The time itself during which the commodity moves from the producer to the consumer depends not upon any factors useful to the consumer, but upon the conditions of capitalist production. Thus, often, the commodity lies in the storehouse or shop only because it cannot be sold at the existing price. A commodity may remain long in storage while its owners constantly change; for instance, during stock exchange speculations, when it may change hands ten times in a single day. Here a process of circulation takes place though the commodity does not itself move. Thus, the real processes of production under capitalism, continuing in the sphere of circulation (transportation, etc.), are lengthened and rendered more complex not because this is necessary in order to bring the product from the producer to the consumer, but solely because of the capitalist form of economy.

The process of circulation requires a certain amount

[1] Concrete cases of the capitalist organisation under conditions of parasitic imperialism are considered in a later Lesson (No. 10). The principles are unaffected by the changes in capitalist organisation.

of time, conditioned on the one hand by the time generally necessary to bring the commodity to its consumer, and on the other by the circumstances arising out of capitalist anarchy, as just described. Let us imagine that there are no special commercial capitalists in the sphere of circulation. Even so, a certain time would be required for the circulation of commodities.

Let us assume that the production of some definite mass of commodities requires six months and that the capital which must be spent in its production is equal to $100,000. Let us further assume that the time necessary to convert this commodity into money, that is to sell it, is also equal to six months. In order that upon the production of this mass of commodities the industrial capitalist might be able to resume the production of a similar mass of commodities he must have $100,000 to buy the means of production and the labour-power. But he will sell his first consignment of commodities only six months later and will receive money only then. Hence, he must either stop production for six months or have an additional capital of $100,000. In other words, in order to be able to constantly produce this mass of commodities our capitalist must have a capital of $200,000, of which $100,000 are invested in production (in the form of machinery, raw materials, labour-power) and $100,000 in circulation (in the form of commodities). It is easy to see that if the time required for circulation was not six months but three months, then the additional capital will have to be not $100,000 but $50,000. This means that the longer the period of circulation necessary for the conversion of the commodity into money, necessary for the realisation of the commodity, the greater must be the additional capital.

If the industrial capitalist could sell his commodity immediately after its production he would be in no need of additional capital. It is commercial capital which performs this function ; by buying from the industrial capitalist his commodity and continuing the further

process of circulation independently, it relieves the industrial capital of the operations of circulation and also of the need for additional capital, or reduçes this additional capital of the different industrial capitalists to the minimum.

But this does not obviate the necessity for the entire capitalist class of having additional capital for circulation. The only difference is that the functions are divided between the various groups of capitalists. " This is a special form of the social division of labour." The only difference is that this additional capital or " circulation capital " is concentrated in the hands of a special group of commercial capitalists.

The separation of the functions of circulation is an advantage to the industrial capital in that it speeds up the very process of circulation. Besides, a single commercial capitalist realises the commodities of many industrial capitalists. Thanks to the function of circulation being a special function of commercial capital, the entire capitalist economy requires much less additional capital for circulation than would be required if each individual industrial capitalist himself attended to the process of circulation of his commodities and had special capital for it.

Now, after having analysed the functions of commercial capital in the system of industrial capitalism we are able to go into the question of where the profit on the commercial capital or commercial profit originates.

2. COMMERCIAL PROFIT

Inasmuch as the process of circulation does not create any new value, commercial profit cannot be created in the process of circulation (see Lesson II). In the process of circulation there takes place only a change of the forms of value from the commodity form to the money form and vice versa. But no value is created in this process. Commercial profit, like surplus value generally, must be conceived by us on the basis of the law of value, and in the explanation of commercial profit it is therefore wrong to proceed from the

assumption that the commercial capitalists sell to the final consumer the commodity above its value.

The commercial capitalists buy the commodity from the industrial capitalists. But at what price? We already know from the first chapter of this Lesson that the industrial capitalists sell their commodities at the price of production, that is at the cost of production plus the average rate of profit. But before, while acquainting ourselves with the process of equalisation of profit into average profit, we ignored not only the existence of commercial capital, but also the time necessary for the conversion of a commodity into money. In this way we ignored also the need for additional capital connected with the process of circulation. We found the average rate of profit by applying the mass of surplus value to the entire capital. But to what capital? Only to the capital invested into production.

Yet, each capitalist figures, and must figure, the rate of profit on the basis of the entire capital, that is the capital invested into production and the capital tied up in circulation. Let us take the example given in the previous paragraph, in which the capital in production is equal to $100,000 and the capital in circulation is also equal to $100,000 (the time of circulation being equal to the time of production[1]). Let us assume that in the process of production a mass of surplus value was created equal to $20,000.

By distributing over $100,000 only, it constitutes 20 per cent. profit. But in reality our industrial capitalist owns a capital of $200,000 and he has no reason to calculate his rate of profit on the basis of only a part of his capital. He calculates it with regard to the entire capital, that is to $200,000, so that it will no longer be equal to 20 per cent. but only 10 per cent.

What is true of our individual capitalist is true in the given instance also of the entire class of capitalists. Nothing changes in the least from the fact that the

[1] The time of circulation should not be confused with the turnover period. The latter is equal to the sum of the time of circulation and the time of production.

additional capital of circulation necessary for the entire capitalist class is not in the hands of the industrialists, but in the hands of the commercial capitalists. This additional capital is indispensable to the capitalist reproduction, and were the commercial capitalists to disappear the need for additional capital would still continue to exist. The average rate of profit is the ratio between the entire mass of surplus value and the entire social capital, and by the latter we must now mean not only the industrial but also the commercial capital.

We know that the average rate of profit is formed as the result of the competition between the capitals, of their tendency to flow into those industries which yield the highest rate of profit. If commercial capital should receive a smaller rate of profit than industrial capital, then a part of the commercial capital would go into industry, and, as a result, the industrial profit and the commercial profit would be equalised. Hence the commercial capital must also receive the average rate of profit.

But how does this come about? Industrial capital sells to commercial capital the commodity at its price of production, that is at the cost of production plus the average rate of profit. But this average rate is smaller than it would be if the surplus value were to be distributed over the industrial capital alone, hence the price of production is smaller here. In our example, the industrial capitalist sells his commodity not for $120,000 but for $110,000. There remains in the commodity the still unrealised surplus value of $10,000, which is realised by the commercial capitalist whose profit it constitutes.

> "By price of production we mean, now as before, that price of the commodities which is equal to their cost (the value of the constant plus variable capital contained in them),[1] the average profit. But this average profit is now differently determined. It is determined by the total profit produced by the total productive capital, but it is not calculated merely on

[1] John Bellers.

this total productive capital. It is not calculated, as first assumed, so that, if the total productive capital were 900 and the profit 180, the average rate of profit would be $\frac{180}{900} = 20$ per cent. It is rather calculated on the total productive plus the merchant's capital, so that if the total capital is 900 productive + 100 merchant's capital, the average rate of profit is $\frac{180}{1000} = 18$ per cent. The price of production is, therefore, equal to k (the cost) + 18, instead of k + 20. In the average rate of profit, the share of the total profit falling to the merchant's capital is included. The actual value, or price of production, of the total commodity-capital is, therefore, k + p + m (where m indicates profits in merchant's capital). The price of production, or the price at which the industrial capitalist as such sells his commodities, is thus smaller than the actual price of production of commodities. Or looking upon the matter from the point of view of the total commodity-capital, the prices at which the class of industrial capitalists sell are lower than the values of commodities." (Marx, *Capital*, Vol. iii, p. 336.)

This latter is equal to the total sum of values of all the commodities. But since in reality the average rate of profit is formed from the relation of the aggregate mass of surplus value to the entire social capital, the the total sum of prices at which the industrial capitalists sell their commodities to the commercial capitalists is below the total sum of values of these commodities. The sum total of values of all the commodities is equal to the sum total of prices at which the commodities are sold to the consumers.

" Just as the industrial capital realises only such profits as exist previously in the commodities as surplus value, so the merchant's capital realises profits only because the entire surplus value or profit has not yet been realised in the price charged for the commodities by the industrial capitalist.[1] The

[1] John Bellers.

selling price of the merchant then stands above his purchase price, not because the former stands above the total value, but because the purchase price stands below this value." (Marx, *Capital*, Vol. iii, p. 337.)

Just as the competition among the capitals equalises the various rates of profit into an average rate of profit and in this elemental fashion regulates the distribution of surplus value among the industrial capitalists, just so does the average rate spontaneously regulate the distribution of the entire mass of social surplus value between the industrial capitalists and the commercial capitalists.

"The merchant's capital participates in the compensation of the surplus value to an average profit, although it does not take part in its production. So the average rate of profit implies that general deduction from surplus value which falls to the share of merchant's capital, a deduction from the profit of the industrial capital." (Marx, *Capital*, Vol. iii, p. 337.)

From what has been said about commercial capital it appears that commercial capital does not play any independent role but merely performs a function in the general process of reproduction of industrial capital. Commercial profit is only a part of the surplus value created by industrial capital. This subordinate role of commercial capital is particularly strengthened during the epoch of monopolistic capitalism which, as we have seen, generally tends to interfere with the equalisation of the rate of profit.

The big monopolies frequently create their own commercial organisations which themselves serve the entire process of circulation of the commodities produced by them. In this way, they receive the commercial profit as well. Where the monopolies sell their commodities through outside commercial establishments they are able by their monopolist position to dictate to the commercial capitalists such prices that

the commercial capitalists receive a rate of profit below the average.

CONTROL QUESTIONS

1. What is understood by circulation ?
2. What is the special function of commercial capital ?
3. How is commercial profit formed ?

IV. Interest and Interest-bearing Capital (Loan Capital)

We shall now proceed to the question of how one part of the surplus value created by the working class becomes interest.

1. INTEREST AND THE RATE OF INTEREST

When an industrial capitalist borrows money to carry on his business he pays a certain interest on his money. But out of what source does he pay this interest ? It is quite clear that the money borrowed by him does not itself create the interest paid to the lender of the money. If the money could itself create more money then the owner of the money would not lend it.

The industrial capitalist invests the borrowed money in production and pays interest out of the surplus value created in production.

> " That part of the profit, which he pays to the owner, is called interest. It is merely another name, a special term, for a certain part of the profit which capital in process of its function has to give up to its owner, instead of keeping it in its own pockets." (Marx, *Capital*, Vol. iii, p. 398.)

When money is borrowed not by an industrial but by a commercial capitalist, then the interest represents a part of the surplus value created by the working class in production, since the commercial profit (out of which the interest is paid in this case) is itself a part of the same surplus value, as we know.

But if the interest is paid by the industrial (or commercial) capitalist out of his profit, then the rate of interest must be below the average rate of profit. Otherwise, if he were to be forced to give away to the money-lender the entire profit due, in accordance with the law of the average rate of profit, to the capital borrowed and employed by him, then the whole operation of borrowing money would become senseless to the industrial capitalist.

There may be cases, of course, when the industrial (or commercial) capitalist may be prepared to pay a very high rate of interest. Mainly when the shortage of capital threatens to close his factory. In such a case it is sometimes necessary to pay a high rate of interest without making any profit on the money borrowed as long as it ensures a profit on his own capital invested in production. But this is only an exceptional case. As a rule the average interest is below the average rate of profit.

The question naturally arises how is it that commercial capital receives the average rate of profit, while loan capital must be content with a rate of interest below the average rate of profit?

In order to reply to this question it is necessary first of all to see what function this capital performs in the total process of capitalist reproduction. We have seen above that commercial capital participates in the equalisation of the rate of profit, inasmuch as it is necessary as circulation capital additional to the capital employed in production. It participates in the formation of the average rate of profit and receives the average rate of profit.

The case of loan capital is different. It is not additional capital in the proper sense of the word. To the individual industrial or commercial capitalist it constitutes an addition to his own capital. But from the social point of view it is not an addition to the functioning social industrial or commercial capital.

Indeed, loan capital is employed in production (as industrial capital) or in trade (as commercial capital).

As such it becomes a part of that total social capital, and out of the relation of that total social capital to the entire mass of surplus value is the average rate of profit formed. It cannot, therefore, participate twice simultaneously in the equalisation of the rate of profit: once as a component part of the functioning social capital and again as a capital standing outside it. For the formation of the average rate of profit is not in the least affected by the question of whether the industrial capitalist employs his own capital or borrowed capital.

But if the loaned capital does not independently participate in the formation of the average rate of profit, as the commercial capital does, if the rate of interest, as a rule, is below the average rate of profit, this does not mean that the loan capitalists cannot under certain circumstances receive on their own capital the average rate of profit.

The banks in which the loan capitals are concentrated (composed of small savings and other funds), lend not their own capital but other people's capital. The interest which the bank pays to the depositors is below that which it receives on the loans issued, so that the profit which the bank makes on its own capital is considerably above the rate of interest.

We shall illustrate this by the following example. Suppose a bank has a capital of 100 million dollars of its own and deposits equal to 300 million dollars. The bank pays 3 per cent. interest on deposits and receives say 5 per cent. interest in loans. If in the course of a year it turned over its entire capital of 400 million dollars then the result will be as follows. The income of the bank, the interest received on its loans, is equal to 20 million dollars (5 per cent. of 400), the expenditure, that is the interest paid on deposits, is 9 million (3 per cent. of 300), the bank's profit is equal to 11 million or 11 per cent. of its own capital.

In spite of the fact that the rate of interest, as a rule, is below the average rate of profit, the rate of profit on banking capital is not below the average rate of profit. Under modern capitalism it is even above that rate since

the banks are no longer mere middlemen between the demand for loan capital and its supply, but themselves participate in industry, having become closely identified with industrial capital (finance capital: this will be dealt with in a later book), and receive not only interest, but also profit, and even monopoly super-profit.

Thus the interest constitutes a part of the profit, while the rate of interest a part of the average rate of profit, and since the average rate of profit tends to fall, the interest on loan capital has the same tendency. The fall of the rate of interest (as also the fall of the rate of profit) is uneven. The general fluctuations of the rate of interest are due to the relationship between the demand and supply of loan capital; the lower the demand and the higher the supply, the lower the rate of interest and vice versa. The rate of interest reaches the highest point during a boom, and the lowest during a depression. But the general tendency of the rate of interest is to decline.

2. INTEREST AND EMPLOYERS' INCOME

Profit, as a converted form of surplus value, erases, as we have seen earlier (p. 8), all the traces of exploitation. It appears as the product of the entire capital. Industrial profit, however, preserves some traces of its connection with production since it is made out of the capital invested in production. In interest even this connection is obliterated.

The money-lending capitalist receives his income (interest) because his capital actually passes through the social process of reproduction and participates in it, but this is done by other capitalists without his participation. He himself has no relation to this process. He merely lends the money and receives it back, and he gets his income only because he is the owner of the money capital loaned by another capitalist.

To the industrial capitalist the cycle made by his capital consists of the following phases: the industrial capital converts his money (M) into a commodity (C) consisting of the means of production (MPr) and labour-

power (LP); after this the process of circulation is interrupted and his capital continues to exist in the form of productive capital (P). The process of production results in a commodity, but (1) it is a different commodity from the one purchased by the industrial capitalist, and (2) the commodity contains a greater value $(V + S)$. This commodity is again converted through the process of circulation into money (M^1). The entire process of the cycle may be formulated as follows:

$$M - C \quad \begin{matrix} MPr \\ \\ LP \end{matrix} \quad \text{————} P \text{————} C^1 \text{————} M^1$$

(The dots indicate an interruption in the process of circulation.)

To the commercial capitalist the cycle of his capital passes through a smaller number of phases: he buys a commodity and sells the same commodity. $M - C - M^1$.

In the hands of the money-lending capitalist his capital passes only one phase.

> "The interest flows into the hands of the money-capitalist, the lender, the mere owner of capital, who represents only capital property before the process of production and outside of it; while the profit of enterprise flows only into the hands of the investing capitalist, who is not the owner of the capital." (Marx, *Capital*, Vol. iii, p. 440.)

The money capital borrowed by the industrial capitalist is converted by him into productive capital. In the process of production surplus value is created which is converted into average profit. From this average profit the industrial capitalist pays to the money capitalists interest (below the average rate of profit) and thereby receives an income on the capital borrowed by him, an income equal to the average profit due to this capital, minus the interest. This income is called employers' income. The industrial capitalist receives this employers' income not as an owner (for he is not the owner of the capital borrowed by him), but

because he employs this capital in production as a functioning capitalist.

Thus the profit created by the investment in production of loaned capital falls into two parts: (1) interest belonging to the money-lending capitalist, and (2) employers' income belonging to the industrial capitalist.

> "One portion of the profit appears now as interest, as a fruit coming to capital in *one* of its forms; the other portion appears as a specific fruit of capital in an opposite form, and thus as profit of enterprise. One appears as the fruit of mere ownership of capital, the other as a fruit of the performance of the function of capital, as a fruit of capital in process, of the functions performed by the active capitalist." (Marx, *Capital*, Vol. iii, p. 440.)

The division of the profit into interest and employers' income applies also to the profit created by the capital belonging to the industrial capitalist himself. For if the money-lending capitalist receives interest only because he owns capital, then the industrial capitalist is also an owner of capital, and therefore his own capital must also bear interest. The industrial capitalist therefore considers the profit on his own capital to consist of two parts: (1) interest received by him as the owner of his capital, and (2) profit he makes as an employer.

In the light of what has been said above about interest and loan-capital it is quite obvious that the "demand" of the social-fascists for a control of investment policy, etc., a demand which they themselves regard as an important slogan, is merely aimed at deceiving the masses. The social-fascist "theoreticians" make it appear as if both the employers and the landowners suffer from the yoke of the money-capitalists. But they "forget" that the industrial capitalist is himself in a certain measure a money-lending capitalist; for the money capitals concentrated in the banks are formed largely out of the deposits of the industrialists, traders and landlords who receive a part of the interest (interest on deposits) charged by the banks to those

capitalists whom they credit with this money. The "poor" capitalists are thus their own debtors.

The social fascists need this hocus-pocus simply in order to create among the workers the illusion that their employer is not an exploiter, but is himself exploited. But the working class sees through the social-fascist humbug, for it knows that all the groups of capitalists live at the expense of the labour squeezed out of the working class. The fight between the capitalists is always a fight for the skin of the working class.

CONTROL QUESTIONS

1. Why must the rate of interest, as a rule, be lower than the average rate of profit?
2. Why is interest-bearing capital the highest form of mystification of capital?

This leaves still another converted form of surplus value to be studied, namely ground rent. In connection with this we shall be able to understand various special features in the development of agriculture, the peculiarities of the class struggle in agriculture, and the tasks confronting the working class in the solution of the so-called "agrarian problem." Our next Lesson will be devoted to all of these questions.

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